

Message Text

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DEPT PASS TREAS FOR GORDON AND PATRICK

E.O.11652: N/A

TAGS: EFIN, OECD

SUBJECT: COMMITTEE ON FISCAL AFFAIRS, MEETING 14-16 JAN
1975

REFS: (A) CFA/A(74)) OF 00

C 1974

(B) CFA(74)16 OF 16 DEC 1974

(C) CFA(74)14 OF 9 DEC 1974

1. SUMMARY: DURING THREE-DAY SESSION CFA ESTABLISHED
NEW WP ON ENERGY TAXATION AND CONSIDERED OTHER EIGHT TAX-
RELATED ITEMS (REF A) AT LENGTH. STATEMENTS BY SEVERAL
COUNTRY REPS POINTING TO PROBLEMS WHICH MIGHT RESULT
FROM ELIMINATION OF U.S. WITHHOLDING TAXES ON INTEREST
PAID TO NON-RESIDENTS WERE EFFECTIVELY ANSWERED BY U.S.
REP (SEE PARA 9 BELOW). END SUMMARY.

2. RECENT DEVELOPMENTS IN THE TAXATION OF ENERGY: UK
DELEGATION NOTED THAT REF B CONTAINED GOOD SUMMARY
CURRENT STATUS OF UK OIL TAXATION BILL, AND THAT SINCE
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BILL WAS IN COMMITTEE NOT MUCH ADDITIONAL INFORMATION

COULD BE ADDED. PRINCIPLE FEATURE IS THAT IT CREATES "RING FENCE" AROUND NORTH SEA OIL SO THAT UK TAX YIELD FROM OIL PRODUCTION THERE WOULD NOT BE AFFECTED BY A FIRM'S OTHER ACTIVITIES. ANOTHER BILL WOULD ESTABLISH PROCEDURES FOR DEALING WITH TRANSFER PRICE PROBLEMS ASSOCIATED WITH OVERSEAS OIL PRODUCTION. CFA ALSO NOTED THAT PREPARATION OF LEGISLATION ON TAXATION OF PETROLEUM WAS CURRENTLY UNDER WAY IN NORWAY AND FRANCE, BUT THAT NO FINAL DECISIONS HAVE BEEN REACHED. ACTING ON RECOMMENDATION OF ITS AD HOC GROUP, (REF C), CFA DECIDED TO ESTABLISH WORKING PARTY ON ENERGY TAXATION. MEMBERS (SO FAR) INCLUDE GERMANY, NORWAY AND U.S.

3. DOUBLE TAXATION: IN ORAL REPORT ON WORK OF WP-1, SWISS CHAIRMAN NOTED THAT WP-1 EXPECTED TO COMPLETE REVISION OF MODEL INCOME TAX CONVENTION BY END 1975. THEREAFTER, IT WILL GIVE ATTENTION TO MODEL CONVENTION ON TRANSFERS AT DEATH, TO CONVENTION ON ADMINISTRATIVE COOPERATION, AND TO PROBLEMS ASSOCIATED WITH PARTNERSHIPS.

4. TAXATION OF MNE'S: DURING BRIEF ORAL REPORT ON GENERAL DEVELOPMENTS IN OECD CONCERNING MULTINATIONALS, IT WAS NOTED THAT WP-6 DIALOG WITH BIAC WOULD BE CONTINUED AND THAT REPORT OF AD HOC TRANSFER PRICING GROUP ON TREATMENT OF INTEREST ON INTER-COMPANY LOANS WOULD BE CONSIDERED AT WP-6 MEETING END FEB.

5. SOCIAL AND STATISTICAL ASPECTS OF TAXATION: CFA REACHED GENERAL AGREEMENT ON GIVING TOP PRIORITY TO TAX PROBLEMS POSED BY INFLATION AND ON EXTENDING THE PROGRAM OF WP THIS SUBJECT TO INCLUDE CORPORATE TAX ASPECTS AS WELL AS PERSONAL TAX ASPECTS OF MATTER. U.S. DEL URGED THAT TAX EFFECT ON HOUSEHOLD SAVINGS BE NEXT IN PRIORITY. WHILE SEVERAL DELS SUPPORTED THIS POSITION, MOST CONSIDERED TAX TREATMENT OF WORKING WIVES (AND TAXABLE UNITS) TO HAVE HIGHER PRIORITY.

6. TAXATION OF COLLECTIVE INVESTMENT INSTITUTIONS: DUTCH CHAIRMAN OF WP ON COLLECTIVE INVESTMENT INSTITUTIONS LIMITED OFFICIAL USE

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TIONS (MUTUAL FUNDS) REPORTED ON WORK DONE SO FAR, NOTING THAT REPORT ON SUBJECT WOULD BE CONSIDERED AT NEXT WP MEETING (JUNE 27, 1975).

7. TAXATION INTERNATIONAL LOAN CAPITAL: SECRETARIAT REPORTED THAT COMMITTEE ON FINANCIAL MARKETS HAD REACTED UNFAVORABLY TO CFA WP REPORT RECOMMENDING GENERALIZED WITHHOLDING TAX IN OECD COUNTRIES, EXPRESSING CONCERN

OVER BURDEN IT WOULD IMPOSE ON INTERNATIONAL CAPITAL
MARKETS.

8. TAX AVOIDANCE AND EVASION: SUMMARY REPORT OF AD HOC
WORKING PARTY ON TAX EVASION WAS ACCEPTED AND WP WAS
INSTRUCTED TO PROCEED WITH OBTAINING INFORMATION THROUGH

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ITS QUESTIONNAIRE ON ADMINISTRATIVE PRACTICES AND PROB-
LEMS.

9. RECENT TAX DEVELOPMENTS: FRENCH DEL EXPLAINED NEW,
REFUNDABLE TAX DESIGNED TO CONTAIN INFLATIONARY FORCES;
33-1/3 PERCENT OF THE INCREASE IN "VALUE ADDED" BY AN
ENTERPRISE IN EXCESS OF THE AVERAGE NATIONAL INCREASE
OVER PRIOR YEAR. EXCESS IS MEASURED AFTER ADJUSTMENTS
DESIGNED TO ELIMINATE "REAL" INCREASES IN PRODUCTIVITY
SO THAT TAX BASE WOULD BE RESTRICTED TO INCREASES IN
"VALUE ADDED" DUE TO EXCESSIVE WAGE INCREASES AND
EXCESSIVE PROFITS. CFA ALSO REVIEWED VARIOUS TAX
PROPOSALS MADE IN U.S. DURING 1974, IN PARTICULAR PRO-

POSED ELIMINATION OF WITHHOLDING TAXES ON INTEREST PAID TO NON-RESIDENTS DESCRIBED IN STATEMENT OF ASSISTANT SECRETARY HICKMAN ON THIS SUBJECT. CHAIRMAN (KERLAN - FRANCE), AS WELL AS DELS FROM GERMANY, BELGIUM AND SWITZERLAND EXPRESSED CONSIDERABLE DISMAY ABOUT THIS PROPOSAL. PRINCIPAL CONCERNS WERE FEAR THIS WOULD LEAD TO WIDESPREAD TAX EVASION, AND THAT INTERNATIONAL POSITION OF U.S. WOULD MEAN THAT ALL COUNTRIES WOULD BE LIMITED OFFICIAL USE

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FORCED INTO COMPETITIVE REDUCTION OF THEIR WITHHOLDING TAXES. U.S. DELEGATION STRESSED THAT END RESULT OF TAXATION OF INVESTMENT INCOME BY RESIDENCE COUNTRY WAS CONSISTENT WITH OECD TREATY ALLOCATION PRINCIPLES, THAT EXCHANGE OF INFORMATION COULD BE RELIED UPON FOR ENFORCEMENT RATHER THAN WITHHOLDING, AND THAT AUTHORITY WOULD BE RETAINED TO IMPOSE TAX WHERE COUNTRIES REFUSED COOPERATION. CHAIRMAN PROPOSED THAT TOPIC OF WITHHOLDING BE PLACED ON JUNE AGENDA AND COUPLED THIS WITH TOPIC OF WHETHER FOREIGN GOVERNMENTS SHOULD BE EXEMPT FROM TAXATION.

10. NEXT MEETING OF CFA SCHEDULED FOR JUNE 24-26.
TURNER

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